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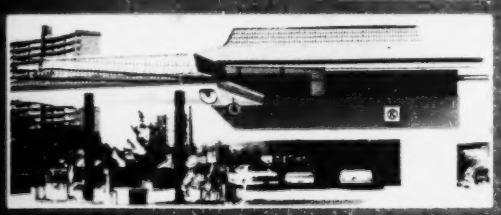
How Marketer Profits With Car Washes
Why Image Programs Are Creating Concern
Shell Leads In Share Of Market—Again

NPN
National Petroleum News



Indies, Majors, C-Stores Face Off In Hawaii Market

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Editor's Viewpoint

Here we go again. A sharp increase in gasoline prices and the oil industry—refiners, marketers and corner stations—is under the gun. There's a giant hoax to gouge motorists. That's apparently how a lot of people, including some in the industry itself, see things.

The news media hasn't helped. Some coverage (mostly print media, but also on TV and radio) has been excellent, noting that the rise in gasoline prices just might have more to do with market forces than conspiracies to generate "obscene" profits. But reporting has generally lacked depth and analysis. There have been hints, directly or indirectly, that motorists are being bilked and the industry has been misrepresented. One talk show host claimed oil companies are blaming the Exxon Valdez oil spill for higher prices across the country. No one in the industry is dumb enough to say that without being accused of playing with a mail order lobotomy kit. The Exxon Valdez spilled about 10-million gal. of crude; a small percentage of what the U.S. uses in one day. The real damage was to the environment—and Exxon's image (the latest bit of black humor is that baby seals are now clubbing Exxon officials to death).

There have no doubt been instances of gouging, depending on how you define that term. If getting the highest price consumers will pay for a product is gouging, then virtually every industry in the country is guilty of it. A lot of people call that capitalism—and for all its faults, the options are worse. During the last period of shortages and gasoline lines, a dealer in a Chicago suburb wouldn't sell you gasoline unless you bought a quart of milk—at $5 a quart. Now, that's gouging. But when the gasoline lines disappeared, so did he.

There's always room for skepticism. But there's also room for facts. For instance, crude prices increased $7/bbl. from late last year through the end of this March, according to API. That would account for about 17c/gal. at the pump. Also, the price increases occurred on the verge of the peak driving season when demand increases. In fact, demand generally has increased—from 15-million b/d in the early '80s to about 17-million b/d today. Meanwhile, refinery utilization is near its peak. Couple these factors with such events as the explosion at a North Sea oil platform and the temporary shutdown of the Alaska pipeline because of a pumping station leak. Then add the EPA's edict to lower RVP, which will reduce gasoline production and require adding expensive additives.

Given all this, is it unreasonable to assume that refiners and marketers are adjusting prices based on legitimate concerns about supply and demand? Or is gouging always the only answer? Let's wait and see what happens as crude prices drop and demand slackens in the fall.

—Frank Victoria

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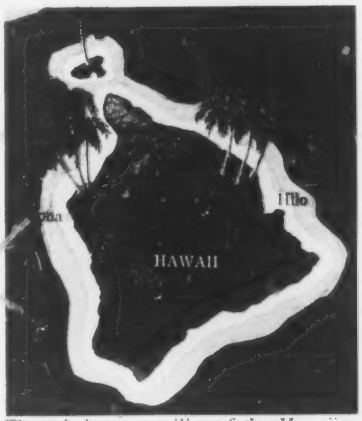


The relative tranquility of the Hawaiian petroleum market has been disrupted by aggressive independents and big convenience store marketers which are challenging the old guard major companies for a bigger share of the market. **Page 36**

Many have tried and some have succeeded in the volatile car wash business. Illinois marketer Feeney Oil Co. is one of the more notable successes, with substantial car wash profits plus some feedoff gasoline and C-store sales too. **Page 42**

There has been a big push in recent years behind image incentive provided by suppliers to jobbers for station improvements, but they haven't always worked out as well as some jobbers expected. **Page 48**

Asset Sales Boost Texaco, Arco Profits

Assets sales were especially helpful in the first quarter in enabling Texaco and Arco to show substantial earnings that more or less bucked the industry trend of soft quarterly earnings.

Minus signs were posted by Exxon, Mobil, Chevron, Shell, Amoco and others, mostly due to lagging wholesale prices that failed to reflect rising crude costs. Profitable quarters were posted by Conoco, Sun, Phillips, Marathon, Amerada Hess, Pennzoil and Kerr-McGee.

Texaco's sale of its Canadian interests brought more than $1-billion into the first-quarter kitty while Arco's sale of its 53% interest in Lyondell Petrochemical gave a one-time profit of more than $600-million.

Downstream earnings, except for Amoco, Sun and Marathon, were soggy. Here's the first-quarter scoreboard:

	1st Q 1989	1st Q 1988	% Chng.
Exxon	$1,270.0	$1,455.0	(12.7%)
Mobil	429.0	549.0	(21.9)
Chevron	313.0	653.0	(52.1)
Texaco	1,455.0	270.0	438.9
Shell	362.0	390.0	(7.2)
Amoco	458.0	469.0	(2.3)
BP America	NA	NA	--
Arco	704.0	401.0	75.6
Conoco	217.0	112.0	93.8
Sun	81.0	60.0	35.0
Phillips	190.0	130.0	46.2
Unocal	87.0	178.0	(51.1)
Marathon (*)	241.0	84.0	186.9
Coastal	NA	NA	--
Amerada Hess	220.2	65.6	235.7
Ashland (**)	(13.8)	20.6	--
Diamond Shamrock	NA	NA	--
Pennzoil	52.5	11.3	364.6
Kerr-McGee	63.9	10.3	520.4
Murphy	6.4	(6.4)	--
American Petrofina	48.8	30.4	60.5
Citgo	36.6	41.9	(12.6)

(*) Operating Income; (**) Second quarter, fiscal ends 9/30.

Downstream: Amoco, Sun, Marathon Look Good

Exxon	40.0	90.0	(55.6)
Mobil	76.0	101.0	(24.8)
Chevron	7.0	134.0	(94.8)
Texaco	34.0	93.0	(63.4)
Shell	113.0	130.0	(13.7)
Amoco	114.0	106.0	7.5
Arco (a)	742.0	184.0	303.2
Conoco	71.0	71.0	--
Sun	67.6	40.0	67.5
Phillips	51.0	49.0	4.1
Unocal	NA	NA	--
Marathon	66.0	29.0	127.6
Murphy	3.2	(0.9)	--

(a) Includes Lyondell Petrochemicals which Arco sold in March.

Rising Gasoline Prices For The Balance Of 1989

Soaring gasoline prices, with prospects that more will come and stay on the high side of usual fall declines, may mean unhappy confrontations between and among suppliers, distributors, retailers, motorists and consumer advocate groups for the next six months.

There are reasons for the spurt in gasoline prices—rising crude oil costs which had not been passed down to refined products, new volatility regulations, underground tank regulations and the fall deadline on million-dollar insurance policies, to cite a few.

But there also were questions about the gasoline escalations. Crude and product supplies are relatively normal and no shortages are in sight, even though the OPEC nations have succeeded in cutting back their output about 2-million b/d. Refinery throughputs are still in the 80% to 85% range, allowing room for more processing time if needed. But some refineries with high gasoline yields are running at or close to capacity.

Initially, there were suggestions the price increases were a result of the Exxon oil spill in Alaska. There were some supply disruptions, primarily on the West Coast due to that accident, but these lasted only a short time. There were calls for Congressional investigations and many states began inquiries of their own. Associations, particularly PMAA and API, were swamped with calls from industry people and consumers.

There is no question the rising crude oil costs surprised almost everybody. From October 1988 to March 1989, crude rose from $12/bbl. to $19/bbl. Speculator markets shot past $20 in April, abetted by problems in the North Sea which cut 500,000-b/d from world markets.

All this brought about $1-gal. prices for regular grades, leaded and unleaded, and $1.35 to $1.50-gal. postings for the 93 and 94 octanes in the premium fields in early May—the highest the industry has experienced since the early '80s. Memorial Day weekend traditionally inaugurates the summer driving season and usually triggers higher pump prices in lockstep with higher demand. RVP-inspired increases will show up too.

Assuming OPEC holds its current production quota and that crude stays in the $20/bbl. range, most suppliers and marketers feel that Fourth of July retail levels will prevail into fall and winter. Margins likely will remain the same. Cash flows will be a bit healthier for marketers, however, as the $1-plus retails generate more action for the tills.

Some industry people, notably Phil Chisholm, executive vice president of PMAA, fear the price hike wave may cause a revival of bootlegging and tax scams that reaped billions of dollars for the perpetrators a few years ago.

In Washington, meanwhile, talk is rising again that a big boost in the federal tax on gasoline could be a paramount need this fall to help solve the administration's budget-deficit problems. So far it's just talk, but resistance to the tax increase idea appears to be only lukewarm right now.

• CATCHING UP

Although oil companies are considered the goliaths of business and industry, only 17 are ranked in Business Week's annual roster of the Top 1,000. The BW list is composed of publicly-held firms and the rankings are based on the "market worth" of each firm. Excluded from the list are 100% subsidiaries such as Shell, Citgo, Conoco (DuPont), BP America and Marathon (USX). Interesting to note is that all of the oil companies have a BW market value less than their total assets. BW says the market valuation is the stock market value of common shares on March 17, 1989 multiplied by the total number of common shares outstanding. IBM is ranked No. 1, with a market valuation of $66.3-billion and assets of $73.0-billion. Exxon, with a market valuation of $59.0-billion and assets of $71.1-billion, is No. 2. Here are the oil companies in the magazine's Top 1,000:

BW Ranking	Company	BW Market Valuation	Total Assets
		(Billions of $)	
2	Exxon	$59.0	$71.7
10	Amoco	20.8	29.9
11	Mobil	20.4	38.8
14	Chevron	18.6	33.5
19	Arco	15.6	21.5
33	Texaco	2.9	26.3
88	Phillips	5.5	12.0
105	Unocal	4.9	9.5
151	Sun	3.8	11.9
188	Pennzoil	3.0	4.5
193	Amerada Hess	3.0	5.0
243	Ashland	2.3	4.3
281	Kerr-McGee	2.0	3.1
307	Coastal *	1.8	7.6
431	Murphy	1.2	2.0
510	Amer. Petro.	1.0	1.7
841	Diamond Shamrock Refg. & Mktg.	0.5	0.8

* Corporate, includes non-oil subsidiaries.

A Petroleum Marketers Association of America survey shows that most jobbers are mindful of existing federal regulation of aboveground storage tanks and only a small faction (6.7%) are without a formal written spill contingency plan. PMAA says future AST legislation will be an asset if it is geared to facilities where the tanks pose the largest risks as indicated by tank size, age and of construction.

A Waco, Texas-based company is pushing an environmental control device it says cuts heating, ventilating and air conditioning costs dramatically. The system, which involves a process called "cogeneration," converts fuel to electricity more efficiently than conventional methods. The cogeneration system, a method that produces both electric and thermal (steam) energy, converts 80-85% of the fuel used into the two types of energy. Conventional methods only convert 30% of the fuel into energy, says the Waco-based AskCorp.

Insurance companies are formulating ways to offer pollution liability coverage in light of developing state tank funds. Federated Insurance, for example, added a "coordination of benefits" endorsement that will fill in coverage gaps left before and after state funds kick in. Although hesitant to set standards until more state funds are implemented, Federated expects that as state funds become operational, "it will be possible to have clear definitions of what is covered and write insurance around the state funds." Meanwhile, marketer-owned insurance company Petromark has reduced its liability 50% through an agreement with Lloyd's, London, in which Petromark will cover the first $500,000/occurrence and $1-million/aggregate and Lloyd's will cover the second $500,000/occurrence, $1-million aggregate.

The Petroleum Marketers Assn. of America, the Society of Independent Gasoline Marketers of America and the American Petroleum Institute settled on a model underground tank bill for states which each agency believes it can support. PMAA says two pillars of the bill are its revenue sources—a single tank registration fee and a surcharge or tax—and a graduated deductible schedule. For the first three years, the bill calls for $10,000 from the tank owner for cleanup and another $10,000 for third-party liability. It also has a retroactive provision for leaks between May 1986 and December 1988 in which state funds foot the bill for cleanup costs beyond $50,000. PMAA says that no states will accept the bill without some modification, but that the essence of the measure is important to the petroleum industry.

Shell Oil Co. has blended an additive into all of its petroleum grades nationwide. The Houston major says the additive meets the industry's toughest criteria for intake system deposit control and can deter engine valve accumulation while still retaining fuel injector cleanliness. The additive was first offered east of the Rockies where Shell vends three unleaded grades and 10 days later was mixed into Shell's three products west of the Rockies, where one leaded grade is available.

General Motors supports blended fuels, but concedes the company still has a way to go concerning methanol, says a GM executive. Recent EPA volatility rules are behind GM's stance on alcohol blends and oxygenated fuels, say some reports. Still, methanol remains a problem for the automaker, says Dr. Richard Klimisch, executive director for environmental activities at GM, noting cold start and lubrications problems have yet to be solved.

Domestic crude production fell to a 30-year low this March says the API—7,652,000-b/d, 8.2% less than March 1988. API discounted the Exxon oil spill. "Although the unusually large decline reflected in part developments related to the tanker grounding...almost 300,000-b/d of the decrease was accounted for by falling production in the lower 48." API says total imports (petroleum products and crude) continued to increase, but at a slower pace.

• TRENDS

Census Suggests Larger Service Station Market

It will be late this year or early in 1990 before all of the facts and figures are in, but there are already some good indications that the oil industry has been short-changing itself in counting the number of places that sell gasoline to the general public via conventional retail pumps.

In 1987—as it did in 1982, 1977, 1972 and so on—the U.S. Census Bureau made its quinquennial survey of the retail trades, i.e., the number of places doing business as gasoline stations, department stores, drugstores, food stores, apparel shops, etc., etc.

The state-by-state reports from the 1987 census figures are now beginning to emerge from the Census Bureau. All 50 states, plus a special wrap-up edition, are scheduled to be released by early 1990.

Some of the service station numbers contained in the first reports are a bit surprising. If the numbers yet to come all follow the same pattern, the oil industry will have a real quandary on its hands next winter trying to determine how big it really is.

For example, a sister office to the Census Bureau has estimated the service station population eroded about 20% between 1982 and 1987. This estimate placed the total of retail service stations at 112,000 at the end of 1988. The first six or seven census reports do not support that much of a decline, however. Six show declines which range from 3.7% to 18.5%. And one actually shows an increase. A weighted average for all seven states now accounted for is 9%—only half as much as the sister office estimated. Therefore, if the decline holds below the 10% level, the population figure has to be higher than the 112,000 being used currently.

Keep in mind too that these Census Bureau numbers involve only "true" service stations, i.e., places that get 50% or more of their revenues from the sale of gasoline and oil products and have one or more employees. This automatically excludes C-stores which sell gasoline, garages, car washes, etc.

This, of course, is where the population count gets all botched up. When the Census Bureau made its 1972 count (226,500 stations in that one), it was a reasonably accurate figure—a universe, so to speak—because service stations were about the only places in town where motorists could get their tanks refilled.

There were only a handful of C-stores with retail pumps back then, not 40,000 to 50,000 as there are now. The same thing applied to garages, dealerships, car washes, mass merchandisers, etc. Few and far between.

The 1972 census numbers are not comparable to those of 1982 and 1987, however. That's because an error in 1982 nose-counting procedures restricted those studies to service stations with payrolls. They ignored "Moms and Pops" operations and all small stations that lacked formal payrolls.

The 1987 survey likewise counted only the payroll types. They did do something about the uncounted non-payroll stations, however, and might issue some data on them in 1990. But that's not a sure thing yet either. Consequently, a Census Bureau universe figure which is comparable to the 1972 findings isn't exactly the most likely of prospects.

Supporting the feeling that the gasoline station field may be as much as twice as big as currently estimated is an informal study that NPN compiled last spring regarding the East Coast in the spring. NPN collected official and semi-official data from 16 East Coast states [see East Coast Region, page 13]. The count included all places that retailed gasoline—service stations, C-stores, everything. The total—72,000 outlets—was about double the number accredited to the states by the projections which were based on Census Bureau data. If the count is that far off for only 16 states, just how far off could it possibly be for the nation as a whole?

—By J. Richard Shaner

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

MARCH	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$0.974	$0.907	$0.940	$1.115
Regions:				
Northeast	1.012	.920	.960	1.161
North Central	.959	.913	.929	1.105
South	.968	.899	.925	1.081
West	.968	.906	.952	1.122

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (add 000 bbl.)

	4/28/89	4/29/88
Gasoline (total)	222,875	229,746
Gasoline (unleaded) *	154,680	145,987
Jet Kerosine	38,605	37,953
Distillates	96,119	94,616
Residual	41,451	40,916

** Included in gasoline total.*

Source: American Petroleum Institute.

Full Service Car Washes Show Highest Revenue Gains

Average gross revenue per car at both full service and exterior-only car washes continues to rise, although the full service facilities show considerably higher percentage increases, according to "Professional Carwashing & Detailing Magazine."

According to the publication, the national average gross revenue per car for full service washes in 1988 was $6.90, a 6.8% increase over the previous year and nearly a 16% gain from 1986. The average price of a full service wash last year increased 40¢ from 1987 to $6.37.

Extra services revenue per car and annual wash volume, however, did not fare as well. The extra services figure for 1988 was $1.69, slightly lower than the year before, and annual volume for 1989—71,900—was just above 1987 and about the same as 1986.

For exterior-only conveyor washes, the average gross revenue per car in 1988 was $4.09, just 2.8% higher than 1987. The $3.82 average price of an exterior-only wash, however, was only a 2.7% increase. The annual volume of 60,900 cars was, as with the full service conveyors, only slightly higher than in 1987 and about the same as in 1986.

The car wash publication's figures are based on a survey it conducted among 215 car wash operators, who washed nearly 20-million vehicles in 1987. Approximately half of the poll participants owned full service conveyors, with one-quarter offering exterior-only conveyors and the balance non-conveyor washes.

Among the trends with full service conveyor washes discerned by the magazine was increasing use of frictionless equipment. It also notes that operating expenses and the typical starting wage are increasing. It also says higher volume washes are facing greater competition.

The major trend at exterior-only conveyor washes is that about 41% of them now report having self-serve wand bays. Moreover, the wand washes contribute, on average, about one-quarter of the location's total revenue. Competition for this group is also increasing, although unlike full service facilities, it is the low volume operations that are encountering the highly competitive situations. At the same time, total expenses for this type of wash are 4.6% higher than the previous year, although managerial salaries, typically considered the biggest expense, declined slightly.

Gasoline is sold at about 50% of all exterior-only car wash facilities. Units without gasoline usually charge more for their washes and aren't open as often.

The magazine survey indicates that gasoline is sold at about half of all exterior-only conveyor washes. It also notes that locations without gasoline charge higher prices for their washes and are open less often.

Other figures for both full service conveyor and exterior-only washes developed by the magazine's survey follow.

Full Service Conveyors

General Averages:
- Twenty-one percent have coin-op vacuums.
- Eight percent have self service bays.
- Sixty-three percent have a detail shop.

Cleaning Method:

• Cloth only	62%
• Bristle only	7%
• Cloth and bristle	12%
• Frictionless	9%
• Friction and frictionless	10%

Labor:

• Starting wage	$3.66
• Have commission system	74%
• Have job opening(s)	60%
• Employment term	10 mos.
• Labor cost per car	32%

Pricing:
On-Line Services:

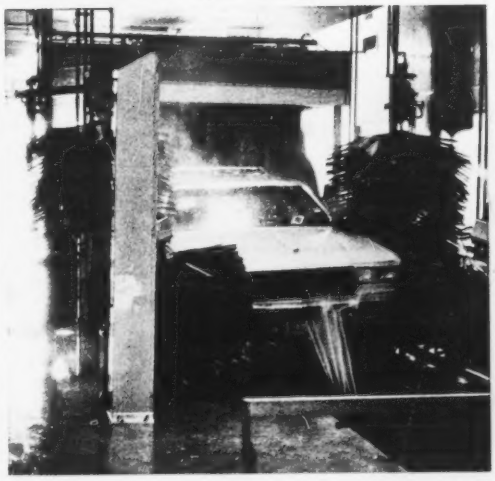
• Exterior wash	$4.57
• Full-serve wash	$6.37
• Hot wax	$1.81
• Polymer wax	$2.89
• Foam wax	$3.11
• Foam and buff	$3.47

for car wash equipment may reach $140,000.

Another car wash in the Decatur location, a stationary rollover, is also being deliberated by Feeney Oil.

Rural tradition

The company that Martin Feeney founded in El Paso, Ill. in 1924 was created as an adjunct to a greenhouse and hatchery business. At the outset, it was essentially a supplying jobbership (five stations in the early years) and did not have its first company-op until the thirties. When Martin died in 1939, his son, Charles Feeney, Sr., took over for what was to be about a 45-year stint as head



Although soft cloth is still popular, there is an apparent trend with full service conveyor washes to have frictionless equipment (left). Full service conveyorized washes rack up the large percentage increases in revenue. However, labor costs are a bigger factor (right).

• Combo	$11.72
Off-Line Services:	
• Exterior vinyl	$5.75
• Interior vinyl	$5.66
• Carpet shampoo	$19.17
• Upholstery	$33.75
• Wax/hand buff	$43.02
• Wax/auto buff	$42.33
• Engine cleaning	$20.09
• Polymer protectant	$126.47
• Deluxe detail	$104.91

Typical Expenditures:

• Soaps and waxes	$21,000
• Impulse merchandise	$13,800
• Vending products	$4,200
• Damage claims	$6,000
• Officer/manager salaries	$53,700
• Clerical salaries	$38,700
• On-line labor salaries	$117,000
• Commissions/bonuses	$10,500
• Advertising/promotions	$15,300
• Equipment leases	$11,500
• Rent	$42,700
• Maintenance and repair	$16,100
• Depreciation	$28,700
• Insurance	$14,700
• Professional services	$4,800
• Taxes/licenses	$12,500
• Utilities	$17,700
• Water/sewer	$8,100
• Automobile/travel	$3,700
• Interest/bank expenses	$24,600
• Credit	$5,000
• Office expenses	$3,700
• Phone	$2,800
• Waste disposal	$1,400
• Miscellaneous	$6,200

Exterior Conveyors

General Averages:

- Ninety-three percent have coin-op vacuums.
- Monthly revenue per vacuum is $182.
- Forty-one percent have self service wand bays.
- There are 4.2 bays per location.
- Nineteen percent have a detail shop.

Cleaning Method:

• Cloth only	60%
• Bristle only	14%
• Cloth and bristle	10%
• Frictionless	10%
• Friction and frictionless	5%

Labor:

• Starting wage	$3.93
• Have commission system	47%
• Have job openings	42%
• Term of employment	1 yr.
• Labor cost per car	24%

Pricing:

On-Line Services

• Wash	$3.82
• Hot wax	$1.27
• Polymer wax	$2.55
• Foam wax	$2.97
• Foam and buff	$2.76
• Combo special	$8.16
• Air fragrance	.84
• Rust inhibitor	$1.36
• Floor mats	.92
• Whitewalls	$1.35

Typical Expenditures:

• Soaps and waxes	$15,400
• Officer/manager salaries	$35,800
• Clerical salaies	$17,000
• On-line labor salaries	$32,300
• Commissions/bonuses	$6,200
• Advertising/promotions	$6,100
• Equipment leases	$15,300
• Rent	$27,800
• Maintenance and repair	$9,100
• Utilities	$12,600
• Water/sewer	$6,100
• Depreciation	$19,600

of the jobbership. Chuck, Tom and Barb brought the family-held business in 1983 from their father who was retiring.

Except for a 1965 buyout of a Bloomington-Normal Shell jobber who had a couple outlets as well as industrial lube and fuel oil accounts, Feeney matured slowly until the last 10 years.

Through the '80s the marketer began to assert itself more at the retail level and today has three "Thrifty Mart" C-stores (including the Morton stationary rollover) and three service bay outlets as well as the Bloomington soft cloth tunnel wash.

According to Tom Feeney, "We're not